

CONDITIONS OF APPROVAL

1. WPS Resources Corporation, Peoples Energy Corporation ("PEC"), The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (collectively "Applicants") will not include in future Illinois rate proceedings the revenue requirement impacts of increased rate base caused by the recognition for tax purposes of a temporary reduction in LIFO gas in storage inventory as of the closing date, but will take actions to mitigate the tax impact of the LIFO issue. Such actions shall not affect the gas supply plan of the utilities and will have no impact on customers' rates.

2. Any adjustments to the books of Peoples Gas and North Shore (collectively the "Gas Companies") for financial reporting purposes resulting from application of purchase accounting for the Reorganization shall be disregarded for regulatory reporting purposes and for ratemaking purposes.

3. Applicants shall file with the Chief Clerk of the Commission, and provide a copy to the Manager of the Accounting Department, copies of the accounting entries to be recorded on the regulatory books of the Gas Companies, including preliminary amounts to be recorded, within 6 months after closing the merger transaction, and shall file the final entries and amounts no later than 12 months after closing.

4. Applicants will provide to the Commission's Chief Clerk and to the Commission's Manager of the Accounting Department, by March 31 of each year, all reports, studies, and any other inter-company transactions and compliance reports filings for Wisconsin Public Service Corporation ("WPSC") and its affiliates required by the Public Service Commission of Wisconsin. A listing of the filings required by the Public Service Commission of Wisconsin as of March 30, 2006 is contained in Attachment C to ICC Staff Exhibit 1.0 (Hathhorn Direct).

5. The Gas Companies shall not be charged for inter-company services in excess of Wisconsin Public Service Corporation's actual costs in providing such inter-company services;

6. PEC will notify the Manager of Accounting of the Commission each time a change is made in the cost allocation methodology set forth in the WPS Resources Affiliated Interest Agreement ("Regulated Agreement") and the Services and Transfers Agreement ("S&T Agreement") by means of a letter, specifying what methodology is being changed and why the change is being made;

7. A copy of all reports required by the Federal Energy Regulatory Commission ("FERC") concerning Peoples Gas' FERC Operating Statement and Hub Services shall be simultaneously filed with the Commission's Manager of

the Policy Program in the Energy Division and the Manager of the Accounting Department.

8. Each year, within 90 days of its fiscal year end, Peoples Gas shall file with the Commission's Manager of the Policy Program in the Energy Division and the Manager of the Accounting Department a report that reflects all transactions of Peoples Gas and its affiliates which are described as Structured Services Hub Transactions offered pursuant to Peoples Gas' blanket certificate authority.

9. Peoples Gas and North Shore shall provide to the Manager of the Accounting Department the annual reports described in the S&T Agreement, Section X.4, relative to the test year period for the 2007 rate filings, on the same date that their 2007 general rate case filings are filed with the Commission.

10. Applicants will file a plan, within 120 days of the closing, including a timetable, for development and implementation of a combined affiliate transaction system. This filing will include applications for the required approvals to form a services company and will include a plan and schedule to get to full operation of the services company. A copy of this filing shall be provided to the Manager of the Accounting Department. To the extent that any other new affiliated interest agreements or revisions to previously-approved agreements involving the Gas Companies are necessary to fit new processes from the final design and implementation of the services company, the new or revised affiliate interest agreements will also be submitted to the Commission for approval.

11. Applicants shall provide to the Commission and to the Manager of the Commission's Accounting Department copies of the fully executed S&T Agreement and the Regulated Agreement that are being approved by the Commission in this proceeding, within 60 days after the closing of the Reorganization.

12. The allocation of synergy savings resulting from the reorganization will be according to the terms and provisions of the affiliated interest agreements that will govern the provision and receipt of services among affiliated companies subsequent to the Reorganization as approved by the Commission in this proceeding.

13. In the rate cases to be filed by Peoples Gas and North Shore in 2007, the companies will use historical test years ended September 30, 2006, with adjustments for "known and measurable changes" through September 30, 2007. There will be adjustments for "known and measurable changes" for merger-related synergy savings of \$11,445,400 for Peoples Gas and \$1,633,000 for North Shore. (The foregoing does not include gas cost savings, if any, which would flow through the Peoples Gas and North Shore Purchased Gas Adjustment clauses.)

14. Peoples Gas' and North Shore's recovery of merger-related costs to achieve will be limited to the percentage allocations of the total costs to achieve specified in Appendix A to the Cost-to-Achieve Allocation Agreement and the total amount of the cost recovery will be capped at \$44,922,750. Additionally, the individual categories of merger-related costs to achieve will be placed into the following three groups with the total amount of cost recovery in each group capped as follows:

- a) Separation Costs, Retention Costs and Relocation Costs: \$9,699,000.
- b) System Integration Costs: \$28,038,000.
- c) D&O Liability Tail Coverage, Regulatory Process, Facilities Integration, Internal/External Communication Costs and Integration Costs: \$7,185,750

15. The amortization period for the regulatory asset for Peoples Gas' and North Shore's allocated shares of merger-related costs will be five years, commencing on the date rates go into effect incorporating the amortization of specific costs. Therefore, the 5-year amortization of the total of \$35,116,750 of merger-related costs to be included in the 2007 rate case orders (see paragraph 16 below) will commence on the date rates go into effect pursuant to the 2007 rate case orders. The balance of merger-related costs incurred (not to exceed \$9,806,000 per paragraph 14 above) will be amortized over 5 years beginning on January 1, 2010 or the month following expenditure, whichever is later, using a five-year amortization period.

16. The 2007 rate case orders will provide for the amortization of the following amounts of merger-related costs over five years commencing on the effective date of the rates approved by the 2007 rate case orders: \$30,948,040 for Peoples Gas (resulting in an annual amortization of \$6,189,608) and \$4,168,710 for North Shore (resulting in an annual amortization of \$833,742). Peoples Gas and North Shore will provide evidence in their direct case filings to show the amounts of these merger-related costs in each category of costs and the allocations to each utility, summing to the \$30,948,040 and \$4,168,710 amounts. It is recognized that the full amounts of \$30,948,040 and \$4,168,710 may not have been actually incurred by the time the record closes in the 2007 rate cases.

17. In any future rate cases to be filed in which Peoples Gas and North Shore are seeking recovery of merger costs, Peoples Gas and North Shore will present evidence showing the total amounts of merger-related costs actually incurred in each category and the amounts allocated to Peoples Gas and North Shore in accordance with the established allocation percentages, and that the cumulative synergy savings exceed the total costs to achieve being recovered.

18. Applicants will record all actual costs related to the reorganization as those costs are incurred.

19. Applicants will submit an annual report to the Commission with a copy to the Commission's Manager of the Accounting Department by March 15 that sets forth for the years 2006 – 2009:

- a) A cost summary of the actual costs incurred to date; and
- b) A listing of each cost incurred in the calendar year that includes a description of the cost, the amount allocated to each utility by ICC account number, and a reference to a supporting document.

20. Applicants shall support the requested regulatory asset in the anticipated proceeding to set rates for the post-2009 period by

- a) providing for the record in that rate case proceeding the following:
 - i) A summary of the actual costs incurred, and
 - ii) A listing of the actual costs incurred that includes a description of each cost, the amount, and a reference to supporting documents and
- b) making the supporting documents available for review to the parties in that proceeding.
- c). Applicants shall have the burden of proof to demonstrate that the Applicants have incurred actual costs underlying the regulatory asset in accordance with the recoverable cost categories and maximum amounts approved by the Commission. Remaining costs outside of the recoverable cost categories or in excess of the maximum cost category amounts approved by the Commission in this proceeding, if any, shall be excluded from rate recovery in any other rate proceeding.

21. Carrying costs on merger-related costs will not be recorded as a regulatory asset, and the unamortized balance of the regulatory asset for merger-related costs will not be included in rate base. As a result, Peoples Gas and North Shore will not recover carrying costs on merger-related costs from ratepayers.

22. The Gas Companies will maintain their respective capital expenditure budgets and operation and maintenance budgets associated with

their physical gas systems, specifically, distribution, transmission, measurement, and storage, for the aggregate period 2007 through 2009 at levels that will equal or exceed the actual capital and operation and maintenance expenditures, excluding unusual items of a non-recurring nature, by each Company during the aggregate three-year period of fiscal 2004 through fiscal 2006.

23. Peoples Gas will pay for the professional fees and costs of an independent outside consultant with appropriate experience and expertise to (i) conduct a study of Peoples Gas' cast and ductile iron main replacement program and (ii) make recommendations regarding appropriate improvements to the program and its implementation. In order to start the study as soon as possible, Peoples Gas with input from the Commission Staff will select the outside consultant and oversee the conduct of the study. The study shall: (1) assuming a consultant can be selected in a timely manner, be completed no later than March 1, 2007, so that it can be used in support of the rate case anticipated to be filed in early 2007 and discussed in Mr. Schott's direct testimony; (2) identify the main replacement criteria currently utilized by Peoples Gas (including the ZEI criteria resulting from the prior study commissioned by Peoples Gas); (3) determine how the existing replacement program criteria have been implemented by Peoples Gas; (4) determine the current status of the main replacement program; (5) recommend criteria for the replacement of cast and ductile iron main to be utilized on a going forward basis; (6) recommend a schedule for the replacement of cast and ductile iron main on a going forward basis; and (7) include an estimate of the costs for the replacement program based on the recommendations included in the study. A copy of the study, its recommendations and cost estimates shall be provided to the Commission's Director of the Energy Division upon completion.

Peoples Gas also commits to conduct follow-up studies at five year intervals that shall: (i) determine the status of Peoples Gas' cast and ductile iron main replacement program; and (ii) make recommendations regarding appropriate improvements to the program and its implementation. The outside consultant used for the initial study would conduct these follow-up studies. If that consultant is unavailable for any reason, then Peoples Gas with input from the Commission Staff shall select the outside consultant and oversee the conduct of the study. A copy of the follow-up studies shall be provided to the Director of the Energy Division upon their completion. The Commission through its Staff shall determine when the follow-up studies are no longer necessary.

By agreeing to these studies, Peoples Gas would not be agreeing to be bound by the findings, conclusions and recommendations of the studies. Peoples Gas would reserve the right to dispute findings, conclusions and recommendations, and to propose alternative courses of action, in the 2007 rate case or other appropriate regulatory proceedings.

24. The Gas Companies will: (i) provide the results of a query to identify all active non temperature compensating meters set outside and inactive non temperature compensating meters set outside which become active, to the

Director of the Energy Division as an email on a weekly basis; and (ii) stop installing and/or reinstalling non temperature compensating meters by the later of January 1, 2007, or the date an order in this case is entered, subject only to the availability of appropriate meters.

25. The Gas Companies will: (i) conduct a study to determine the current status of the Automated Meter Reading ("AMR") system by reviewing the number of malfunctioning units during the period 2004-2006; (ii) determine the amount of time required to repair and return to service malfunctioning AMR units for the period from 2004 to 2006; and (iii) create or update procedures regarding the Gas Companies' practices for the identification and repair of malfunctioning AMR units. The Gas Companies will inform the Commission of the current status of the AMR system and the time to identify and repair malfunctioning AMR units for the period 2004 - 2006 within 6-months of the closing of the reorganization which is the subject of this Docket, and shall provide their procedures for identifying and repairing malfunctioning AMR units within 9-months of the closing of the proposed reorganization. The Gas Companies shall also consult with Staff regarding the creation or updating of procedures regarding the Gas Companies' practices for the identification and repair of malfunctioning AMR units. If any disagreements arise between Staff and the Gas Companies regarding the appropriate procedures to create or update, such disagreement shall be submitted to the Commission for resolution. A copy of this study and the final procedures shall be provided to the Director of the Energy Division.

The Gas Companies will use reasonable efforts to gain access to the customers' premises in order to successfully implement procedures related to the identification and repair of malfunctioning AMR units, but the success of any new or updated procedures would depend on customer cooperation.

26. The Gas Companies will conduct a study to determine the adequacy of their meter reading practices and their compliance with 83 Illinois Administrative Code Part 280 ("Part 280") related to the timely reading of customer meters. This study must determine the number and the duration of unread meters for the time period 2004 to 2006 within 12 months of the closing of the Reorganization which is the subject of this Docket. The Gas Companies shall also consult with Staff regarding the creation or updating of procedures regarding the Gas Companies' procedures and practices that ensure meters are adequately read and the Gas Companies' actions are in compliance with Part 280. If any disagreements arise between Staff and the Gas Companies regarding the appropriate procedures to create or update, such disagreement shall be submitted to the Commission for resolution. The Gas Companies shall provide a copy of these studies and the revised procedures to the Director of the Commission's Energy Division and Director of Consumer Services Division.

The Gas Companies will use reasonable efforts to gain access to customers' premises in order to successfully implement procedures related to the

timely reading of customer meters, but the success of any new or updated procedures would depend on customer cooperation.

27. In their next rate cases, the Gas Companies will propose to implement an energy efficiency program or programs.

- a) The Gas Companies shall propose energy efficiency program(s) in an aggregate annual amount of \$7.5 million.
- b) The Gas Companies shall propose a cost recovery mechanism and will be free to propose any cost recovery mechanism in the rate cases, whether recovery through base rates or through a rider mechanism. Regardless of the cost recovery mechanism that the Gas Companies propose in their next rate cases, the Gas Companies agree to support and implement the energy efficiency program(s) at the funding levels that the Commission approves, and for which it provides cost recovery, either in base rates or through a rider, in the rate case orders.
- c) The Gas Companies are not obligated to fund energy efficiency programs beyond the amount for which the Commission approves cost recovery in the rate case orders (as such orders may be modified as the result of any appeals). So long as the rate case orders do not require the Gas Companies to fund energy efficiency programs in an amount greater than the amount for which the Commission provides cost recovery in such orders, either in base rates or a rider, and this amount does not exceed \$7.5 million, the Gas Companies will not seek to stay the portion of the rate case orders relating to energy efficiency programs and cost recovery.
- d) CUB, CCSAO, ELPC, AG, UWUA, the City ("Intervenors") and the Staff of the Commission will be free to oppose the energy efficiency program(s) proposed by the Gas Companies in the rate cases, to propose modifications or alternatives to the energy efficiency program(s) proposed by the Gas Companies in the rate cases, to oppose the specific cost recovery mechanism proposed by the Gas Companies, and to propose different cost recovery mechanisms provided that Intervenors shall not advocate that the Gas Companies be required to fund energy efficiency programs in an amount greater than \$7.5 million per year.

Entities not party to Joint Parties Exhibit No. 1 could intervene in the rate cases and oppose implementation of any energy efficiency programs by

the Gas Companies, oppose implementation of programs of the size contemplated by this paragraph 27, oppose recovery of some or all of the costs of such programs through rates, or support energy efficiency programs at sizes and funding levels greater than specified in this paragraph 27.

28. The Gas Companies' 2007 rate case proposals should specify the details of the energy efficiency program(s); the Gas Companies should begin to work immediately with CUB, CCSAO, ELPC, AG, UWUA and the City and with other interested parties in good faith to develop, agree on and present in the next rate case the details of such programs.

29. A third-party administrator will implement any energy efficiency program(s) implemented as a result of the Gas Companies' 2007 rate cases.

30. The Gas Companies will promote the energy efficiency program(s) implemented as the result of the Gas Companies' 2007 rate cases through bill inserts and other appropriate mechanisms to be agreed upon by the Gas Companies and parties interested in energy efficiency programs prior to filing the 2007 rate cases.

31. Applicants commit that there will be no reorganization-related layoffs or reorganization-related position reductions among the UWUA Local 18007 employees.

32. Applicants will work in good faith with UWUA Local 18007 to reach agreement on identifying and implementing improvements to existing programs for the training and advancement of Peoples Gas' union employees that will build the skills of the union workforce and seek to ensure that the supply of skilled union employees is adequate as of now, and is replenished as required with appropriately trained, skilled and qualified employees.

Immediately upon consummation of the merger, Applicants and UWUA Local 18007 will begin a dialogue on the aforementioned issues. Applicants and UWUA Local 18007 may, by agreement, consult with key Staff at the Illinois Commerce Commission as needed on these issues. Applicants and UWUA Local 18007 shall file a joint report with the Commission in this docket within 90 days of the consummation of the merger. This report shall summarize the discussions to date and describe any improvements that have been or will be implemented. The report shall be filed on e-docket in "Public" and, if necessary, "Proprietary" versions.

The commitment stated herein is to a good faith effort by Applicants and UWUA Local 18007 to reach agreement, but not to a specific result or outcome in consequence of the dialogue.

33. Applicants will commit to the following staffing plan:

- a) Applicants will add nine (9) Crew Leaders by means of a promotional upgrade: five at North, two at Central and two at South;
- b) Applicants will add eleven (11) Gas Mechanics by means of a promotional upgrade: five at North, three at Central, and three at South;
- c) Applicants will add eleven (11) Operations Apprentices by means of new entry hiring: five at North, two at Central, three at South, and one in Special Projects; and
- d) Applicants will add eight (8) Senior Service Specialists (Grade No. 1) by means of a promotional upgrade: four at North, two at Central, and two at South.

34. Within 90 days following issuance of a final order in ICC Docket 06-0540, the Gas Companies will make the following changes to their "Choices For You™" ("CFY") programs:

- a) File tariff changes on 45 days notice to eliminate the requirement for a meter number to enroll a customer in the CFY program;
- b) File tariff changes on 45 days notice to specify that only an account number shall be required to enroll a customer in the CFY program.
- c) Eliminate the requirement that suppliers send a letter to customer when Peoples Gas or North Shore terminates service to a Rider SVT customer or does not enroll an ineligible customer in the CFY program; and
- d) File tariff changes on 45 days notice to eliminate the minimum pool size of 50 customers.

35. In their upcoming rate case filings, which are expected to be made before the end of the first quarter of 2007, the Gas Companies will make the following proposals and changes to the CFY programs:

- a) Provision of Rate 1 customer lists (customer name and address) to Rider SVT suppliers on substantially the same terms and conditions that these lists are provided for commercial customers;
- b) Billing the Aggregation Balancing Gas Charge ("ABGC") directly to Rider SVT customers;

- c) Recovery of the gas cost-related portion of the Gas Companies' bad debt through their Gas Charges or another tariff rider and not through base rates;
- d) As part of implementation of the rate case orders, improve the Gas Companies' billing systems related to electronic file transfer;
- e) Elimination of the PEGASys™ charges; and
- f) Address the \$10 enrollment charge for the CFY program, either by proposing to eliminate or modify this charge, or by presenting cost justification for continuing the \$10 enrollment charge.

36. The Gas Companies and Dominion Retail, Inc., Interstate Gas Supply of Illinois, Inc., U.S. Energy Savings Corporation, Mx Energy Inc. and Direct Energy Services, LLC (collectively "RGS") shall meet and discuss the following issues relating to the CFY program in a series of meetings (to which other interested parties, including Commission Staff, AG, CUB, the City, CCSAO and other alternative gas suppliers doing business or known to be interested in doing business on the Gas Companies' systems will be invited) to be held prior to the filing of the Gas Companies upcoming rate cases:

- a) All items listed in paragraph 35 above;
- b) Possible PEGASys™ system improvements and the provision of more information about Required Daily Delivery Quantities ("RDDQ");
- c) Whether the provision requiring a meter read to have occurred within the previous 120 days in order for a customer to be enrolled in CFY can be eliminated or modified;
- d) Whether the tolerance level for the monthly Required Daily Delivery ("RDD") tolerance check can be raised to plus or minus 5%;
- e) Whether the requirement in the CFY program limiting eligibility to customers using a maximum 50,000 therms annually can be eliminated or modified;
- f) Whether the monthly RDD tolerance check can be eliminated;

- g) Whether upstream capacities can be allocated on a pro rata usage basis, or, alternatively, whether the ABGC can be eliminated or the calculation revised, based on review of the services being provided and the upstream assets and capacity being utilized;
- h) Whether the cash working capital requirements relating to the Gas Companies' gas in storage inventory can be recovered through a rate mechanism that is paid only by gas sales customers of the Gas Companies;
- i) Whether the requirement that a customer returning from CFY to sales service from Peoples Gas or North Shore must remain on sales service for a minimum time before returning to CFY can be eliminated;
- j) Whether, and on what terms, the Gas Companies can, with customer authorization, provide customer payment history to a Rider SVT supplier;
- k) Whether, and on what terms, the Gas Companies can, with customer authorization, provide commercial customer tax identification numbers to a Rider SVT supplier;
- l) Whether wide band parameters can be provided allowing an alternate gas supplier ("AGS") to use storage to meet conditions caused by variance in the weather, under provisions pursuant to which the AGS decides how much gas to inject or withdraw to/from storage on a given day (within predetermined limits) in addition to the 10% band around RDDQ; and
- m) Whether, and on what terms, the Gas Companies can purchase CFY supplier bad debt.

The commitment stated in this paragraph 36 is a commitment to a good faith effort by the Gas Companies and RGS to meet, negotiate and attempt to reach mutually-acceptable resolutions of the issues listed in (b) through (m), and not to a specific outcome of any issue. However, issues on which an agreed resolution can be reached in a timely manner with RGS so as to allow submission in the Gas Companies' 2007 rate cases will be included by the Gas Companies in their rate case filings.

37. Applicants will provide access to the Illinois Commerce Commission and its Staff to all books and records of any service company formed by Applicants for all transactions by the service company.

38. By the 10th of each month commencing the second month after the closing of the Reorganization, Applicants shall file on the Commission's E-docket system in Docket 06-0540 a notice identifying all filings by any subsidiary of WPS Resources with the Public Service Commission of Wisconsin during the prior month. Applicants shall also serve a copy of each monthly notice on the Commission's Policy Manager in the Energy Division and its Manager of Accounting.

39. Applicants will provide to the Commission's Manager of Accounting and Energy Division Policy Program Manager notice of any gas related filing submitted to FERC by or on behalf of any of the regulated gas utility subsidiaries of the merged entity and will provide them with a copy of the combined company's annual holding company filings submitted to the Public Service Commission of Wisconsin, the FERC, the Michigan Public Service Commission and the Minnesota Public Utilities Commission.

Nothing further.